



## **BENEFIT IMPROVEMENT ADJUSTMENTS**

**FISCAL YEAR 1999 - 2000**

**CALCULATION**

**AND**

**FUNDING INFORMATION**

**California State Teachers' Retirement System  
Supplemental Payments**

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## **California State Teachers' Retirement System Supplemental Payments**

### **1 Purchasing Power**

Inflation can significantly deteriorate a person's ability to maintain a consistent standard of living after retirement. Inflation is generally measured by changes in the average prices of selected goods and services. As inflation rises, the value of money decreases because it purchases fewer goods and services. A decline in the purchasing power of money is another way to define inflation.

The higher the rate of inflation, the greater the drop in the purchasing power of money. For example, if wages remain the same but prices double, the current purchasing power of wages is only 50% of the purchasing power of those same wages prior to the price increases. In this situation, wages must double to maintain the same purchasing power.

The California State Teachers' Retirement System (CalSTRS) measures the purchasing power level of allowances by the change in the All Urban California Consumer Price Index (CCPI) published by the Department of Industrial Relations, Bureau of Labor Statistics. The cumulative change in the CCPI from each year in which benefits have become effective since 1955 is displayed in Attachment A.

### **2 2% Simple Benefit Adjustment** (Education Code Sections 22140, 22141 and 24402)

The CalSTRS Defined Benefit Program provides an automatic 2% simple benefit adjustment to allowances payable to all benefit recipients to provide some protection against the effects of inflation. This annual "benefit improvement factor" is applied September 1 of each year following the first anniversary of the effective date of the benefit.

There are two other sources of funds that provide additional purchasing power protection for CalSTRS benefit recipients through "supplemental benefit payments". These are School Lands Revenue and the Supplemental Benefit Maintenance Account (SBMA). Supplemental benefit payments are made quarterly from these funds on October 1st, January 1st, April 1st and July 1st. It is important to remember that these payments

are not guaranteed and will continue only as long as funds are available.

### **3 School Lands Revenue** (Education Code Sections 24412 and 24413)

The goal of the state and the Teachers' Retirement Board is to raise the level of purchasing power of CalSTRS allowances to a minimum of 75% of the purchasing power of the initial allowance. In an attempt to meet this goal, revenue generated from the use of State School Lands (land granted to California by the federal government to support schools) and Lieu Lands (properties purchased with the proceeds from the sale of school lands) during the prior year is transferred to CalSTRS each year for the purpose of providing annual supplemental benefit payments in quarterly installments.

This revenue is distributed on a pro-rata basis to all benefit recipients whose initial allowances have fallen below the 75% purchasing power level. Because the revenue from School Lands does not generate enough income to bring the purchasing power of all CalSTRS allowances to at least 75%, the available revenue is distributed on a proportional basis to all eligible benefit recipients. The amount of the School Lands payment for each benefit recipient depends on the: (1) amount of money available from School Lands that year; (2) number of benefit recipients whose allowance purchasing power is below 75%; and (3) increase in the CCPI.

For example, if School Lands revenue is only sufficient to provide 5% of the amount needed to bring all allowances up to a minimum of 75% of the purchasing power of the initial allowance, each eligible benefit recipient will receive from School Lands revenue 5% of the amount needed to restore their purchasing power to 75%.

In 1999-2000, School Lands revenue is providing only 1.4% of the amount needed to restore the purchasing power of allowances payable to all benefit recipients to a minimum of 75%. Therefore, each eligible benefit recipient receives a supplemental benefit payment paid from School Lands revenue equal to 1.4% of the

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amount necessary to raise the purchasing power of the allowance to 75%.

Since School Lands revenue for 1999-2000 is not sufficient to raise the purchasing power of each CalSTRS allowance to a minimum of 75% of the purchasing power of the initial allowance, the SBMA is used to increase the purchasing power of each allowance to a minimum of 75% of the purchasing power of the initial allowance.

### **4 Supplemental Benefit Maintenance Account**

An amount equal to 2.5 percent of the prior year covered CalSTRS' member payroll is transferred each year from the State of California General Fund to the Supplemental Benefit Maintenance Account (SBMA) in the Teachers' Retirement Fund. The SBMA provides annual supplemental benefit payments in quarterly installments to all benefit recipients whose purchasing power has fallen below 75% of the purchasing power of the initial allowance, as long as funds are available.

Both the School Lands revenue and Supplemental Benefit Maintenance Account provide authority to make supplemental payments sufficient to bring purchasing power up to 75% of the purchasing power of the original allowance, and, the funding from the General Fund equal to 2.5 percent of payroll is guaranteed. The 75% level of supplemental payments, however, is not vested. This means that if the combined funding from both sources is not sufficient to bring purchasing power up to the 75% level, supplemental allowances may have to be paid at a lower level. However, it is anticipated that the funding for a 75% supplemental payment will be available well into the twenty first century.

The amount of the supplemental benefit payment for each benefit recipient depends on: 1) the extent to which the benefit recipient's allowance has fallen below 75% of the purchasing power of the initial allowance; and (2) the amount of the supplemental benefit payment provided from School Lands Revenue.

### **5 Estimation of Supplemental Benefit Payments**

A benefit recipient can estimate his or her supplemental benefit payments. It is first necessary to calculate the purchasing power of the current CalSTRS allowance. This may be accomplished by using the following information:

**Initial Allowance** (identified by "Initial Date/Allow" on the Remittance Advice/Check stub just below the Social Security Number)

**Benefit Effective Date** (identified by "Initial Date/Allow" on the Remittance Advice/Check stub just below the Social Security Number)

**Current Allowance** (identified by "Total Gross Allowance" before any deductions for taxes, insurance or receivables); **and**

**Changes in the California Consumer Price Index (CCPI)** is determined by dividing the CCPI for June of 1999 by the CCPI for June of the calendar year of retirement. (See Attachment A to obtain the CCPI factors from 1955-1999.)

### **6 Purchasing Power Percentage of the Current Allowance**

The example will use the following data to calculate the current purchasing power percentage:

Initial Allowance:	\$1,000
Benefit Effective Date:	July 1, 1975
Current Allowance:	\$1,480.00
CCPI Factor:	3.227

In this example, the benefit effective year is 1975, and the corresponding CCPI factor is 3.227. Change in CCPI is determined by dividing the CCPI for June of 1999 by the CCPI for June of the calendar year of retirement.

The purchasing power of the current allowance is determined as follows:

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A. Obtain the CCPI Factor for the benefit effective year: 3.227

B. Multiply the initial allowance by the CCPI Factor to obtain the **Fully Adjusted Allowance**. This is what the current allowance amount would be if it had been adjusted to keep pace with inflation since the Benefit Effective Date.

$$\$1,000 \times 3.227 = \$3,227.00$$

C. Divide the Current Allowance by the Fully Adjusted Allowance to calculate the **Current Purchasing Power Percentage**.

$$\$1,480.00 / \$3,227 = 45.86\%$$

**Note:** If the Current Purchasing Power Allowance percentage is greater than 75%, no supplemental benefit payments will be received.

### 7 Total Quarterly Supplemental Payment

The total supplemental payment is determined as follows:

A. Multiply the fully Adjusted Allowance by .75 to calculate the **75% Purchasing Power Amount** equal to 75% of the initial allowance. (Includes both School Lands and SBMA)

$$\$3,227.00 \times .75 = \$2,420.25$$

B. Subtract the Current Allowance from the 75% Purchasing Power Amount to determine the **Supplemental Monthly Benefit Amount**, the monthly payment amount that would be needed to restore the purchasing power allowance to the 75% level.

$$\$2,420.25 - \$1,480.00 = \$940.25$$

C. Multiply monthly payment amount by three (3) months to determine the **Total Quarterly Supplemental Payment**.

$$\$940.25 \times 3 = \$2,820.75$$

### 8 Funding Components of the Supplemental Benefit Payments

The funding components of the Supplemental Payments are the portion from School Lands Revenue and the portion from the SBMA.

#### A Supplemental Payment - School Lands Revenue (75% Purchasing Power)

The portion of the supplemental payment that is derived from School Lands Revenue is calculated as follows:

In 1999-2000, School Lands revenue is providing only 1.4% of the amount needed to restore purchasing power of the allowances payable to all eligible benefit recipients to 75% of the purchasing power of the initial allowance. Multiply the Total Quarterly Supplemental Payment by 1.4% to calculate the School Lands revenue quarterly component.

$$\$2,820.75 \times 1.4\% (.014) = \$39.49$$

**Note:** This benefit recipient would receive an amount equal to \$39.49 per quarter from School Lands revenue in 1999-2000. The actual amount payable to each eligible benefit recipient will differ.

#### B Supplemental Payment - SBMA (75% Purchasing Power)

The portion of the supplemental benefit payment derived from the SBMA is calculated as follows:

Subtract the School Lands quarterly amount from the **75% Purchasing Power Amount** to obtain the quarterly payment amount that would be needed to restore the allowance purchasing power level to 75%.

$$\$2,820.75 - \$39.49 = \$2,781.26$$

**California State Teachers' Retirement System  
Supplemental Payments**

**Factors for Calculating 1999-2000 Purchasing Power - All Urban California Price Index  
Attachment A**

<u>Year</u>	<u>June CCPI</u>	<u>Purchasing Power Factor</u>
1955	25.7	6.529
1956	26.2	6.405
1957	27.1	6.192
1958	28.1	5.972
1959	28.5	5.888
1960	29.1	5.766
1961	29.5	5.688
1962	30.0	5.593
1963	30.2	5.556
1964	30.8	5.448
1965	31.6	5.310
1966	32.1	5.227
1967	32.9	5.100
1968	34.3	4.892
1969	36.0	4.661
1970	37.9	4.427
1971	39.4	4.259
1972	40.5	4.143
1973	42.7	3.930
1974	47.1	3.563
1975	52.0	3.227
1976	55.2	3.040
1977	59.5	2.820
1978	64.6	2.598
1979	71.0	2.363
1980	83.3	2.014
1981	90.1	1.862
1982	98.5	1.704
1983	99.1	1.693
1984	103.6	1.620
1985	108.4	1.548
1986	112.2	1.496
1987	116.3	1.443
1988	121.7	1.379
1989	128.2	1.309
1990	134.3	1.249
1991	140.1	1.198
1992	145.2	1.156
1993	148.9	1.127
1994	150.7	1.113
1995	154.2	1.088
1996	156.6	1.072
1997	160.0	1.049
1998	163.6	1.026
1999	167.8	1.000

The Purchasing Power Factor is obtained by dividing the CCPI for June of 1999 by the CCPI for June of the calendar year of retirement.

# California State Teachers' Retirement System Supplemental Payments

## Estimation Worksheet

### ■ Current Allowance Purchasing Power Percentage

1.  $\frac{\text{Initial Allowance Monthly Amount}}{\text{CCPI Factor: June of the Benefit Effective Year}} = \text{Fully Adjusted Allowance (a)}$
2.  $\frac{\text{Current Allowance Monthly Amount}}{\text{Fully Adjusted Allowance (a)}} = \text{Current Purchasing Power Percentage (Must be less than 75\% to proceed)}$

### ■ Total Supplemental Benefit Payment

1.  $\frac{\text{Fully Adjusted Allowance (a)}}{\text{Purchasing Power Percentage}} = \text{Total Purchasing Power Amount}$
2.  $\text{Total Purchasing Power Amount} - \text{Currently Allowance Monthly Amount} = \text{Supplemental Benefit Monthly Amount}$
3.  $\frac{\text{Supplemental Benefit Monthly Amount}}{\text{Number of months in a quarter of a year}} = \text{Total Quarterly Supplemental Payment (b)}$

### ■ Funding Components of Supplemental Benefit Payments

#### School Lands Component (75% Purchasing Power)

**Note:** The amount available from School Lands to raise purchasing power to 75% in the current year is 1.4%. The percentage available to raise purchasing power to 75% will vary from year to year.

$$\frac{\text{Total Quarterly Supplemental Payment (b)}}{\text{Percentage available for 75\% Purchasing Power}} = \text{School Lands Quarterly Component (c)}$$

#### SBMA Component (75% Purchasing Power)

$$\text{Total Quarterly Supplemental Payment (b)} - \text{School Lands Quarterly Component (c)} = \text{SBMA Quarterly Component (d)}$$